

AUDITING PROCEDURES REPORT

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Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name City of Sandusky	County Sanilac
Audit Date February 28, 2005	Opinion Date April 7, 2005	Date Accountant Report Submitted to State: August 16, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

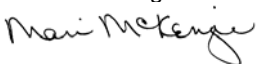
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable boxes for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL: 129/91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal financial assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name) Yeo & Yeo, P.C.			
Street Address 3023 Davenport	City Saginaw	State MI	ZIP 48602
Accountant Signature 			

City of Sandusky
Sanilac County, Michigan
Annual Financial Statements
and
Auditors' Report
February 28, 2005

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City of Sandusky
List of Elected and Appointed Officials
February 28, 2005

City Council

Sharon Kasprzyk - Mayor

Edna Smith - Mayor Pro-tem

Keith Costine - Council Member

Rick Cook - Council Member

Virginia Bissett - Council Member

Lupe Vandercook - Council Member

Marguerite McNiven - Council Member

Other Officers and Officials

Lou LaPonsie - City Manager

Laurie Thompson - City Clerk

E. Keith Phillips - Treasurer



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Independent Auditors' Report

To the Honorable Mayor and Members of the City Council
City of Sandusky
Sandusky, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Sandusky as of and for the year ended February 28, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Sandusky as of February 28, 2005 and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the City Council has implemented a new reporting model as required by the provisions of the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* and Governmental Accounting Standards Board Statement No. 38, *Certain Financial Statement Disclosures*, as of March 1, 2004.

The management's discussion and analysis and budgetary comparison information identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Sandusky's basic financial statements. The accompanying other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Yeo & Yeo, P.C.

April 7, 2005
Saginaw, Michigan

City of Sandusky
Management's Discussion and Analysis
February 28, 2005

Introduction

Our discussion and analysis of City of Sandusky, Michigan's financial performance provides an overview of the City's financial activities for the fiscal year ended February 28, 2005. It should be read in conjunction with the City's financial statements, which begin on page 4-1.

This annual report consists of a series of financial statements. The Statement of Net Assets (on page 4-1) and the Statement of Activities (on page 4-2) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 4-3. For governmental activities, these statements explain how these services were financed in the short term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

Certain comparative information, ordinarily required, is not available the first year that the financial statements are prepared according to GASB 34 guidelines. Subsequent reports will include a prior year comparison of results.

The City as a Whole

The City's combined net assets increased 4.7% from a year ago – increasing from \$ 5.6 million to \$ 5.9 million. As we look at the governmental activities separately from the business-type activities, we can see that the governmental activities experienced an increase of approximately \$353 thousand during the year. The business-type activities experienced a \$90 thousand decrease in net assets, primarily as a result of DEQ penalty charged to the wastewater treatment plant and loss on sale of equipment.

City of Sandusky
Management's Discussion and Analysis
February 28, 2005

Following is an analysis of the major components of the net assets (in thousands of dollars) of the City as of February 28, 2005:

	Governmental Activities	Business-type Activities	Total
Assets			
Current and other assets	\$ 3,401	\$ 188	\$ 3,589
Capital assets	655	4,791	5,446
Total assets	<u>4,056</u>	<u>4,979</u>	<u>9,035</u>
Liabilities			
Current liabilities	99	57	156
Noncurrent liabilities	<u>1,589</u>	<u>1,404</u>	<u>2,993</u>
Total liabilities	<u>1,688</u>	<u>1,461</u>	<u>3,149</u>
Net assets			
Invested in capital assets -			
Net of related debt	476	2,997	3,473
Restricted	64	216	280
Unrestricted	<u>1,828</u>	<u>305</u>	<u>2,133</u>
Total net assets	<u>\$ 2,368</u>	<u>\$ 3,518</u>	<u>\$ 5,886</u>

City of Sandusky
Management's Discussion and Analysis
February 28, 2005

The following table shows the changes of net assets (in thousands of dollars) as of the current date.

	Governmental Activities	Business- type Activities	Total
	2005	2005	2005
Program revenues			
Charges for services	\$ 326	\$ 1,052	\$ 1,378
Operating grants and contributions	4	-	4
Capital grants and contributions	473		473
General revenues			
Property taxes	1,190	-	1,190
State shared revenue	501	-	501
Unrestricted investment income	51	1	52
Gain on sale of capital assets	2	-	2
Miscellaneous	24	22	46
Total revenues	<u>2,571</u>	<u>1,075</u>	<u>3,646</u>
Program expenses			
General government	397	-	397
Public safety	539	-	539
Public works	802	-	802
Health and welfare	247	-	247
Community and economic development	40	-	40
Recreation and culture	116	-	116
Interest on long-term debt	77	-	77
Sewer	-	717	717
Water	-	448	448
Total expenses	<u>2,218</u>	<u>1,165</u>	<u>3,383</u>
Change in net assets	353	(90)	263
Beginning net assets	<u>2,015</u>	<u>3,608</u>	<u>5,623</u>
Ending net assets	<u>\$ 2,368</u>	<u>\$ 3,518</u>	<u>\$ 5,886</u>

City of Sandusky
Management's Discussion and Analysis
February 28, 2005

The City's Funds

Our analysis of the City's major funds begins on page 4-3, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as water and sewer service, roadwork, storm sewers and sidewalks. The City's major funds for 2005-06 include the General, Major Street, Local Street, Senior Citizens Housing, Sewer and Water Funds.

The General Fund pays for most of the City's governmental services. The most significant are the police and fire, which incurred expenses of \$510 thousand in 2004-05.

General Fund Budgetary Highlights

Over the course of the year, the City Council amended the budget. The significant budget changes included the following:

- Police was increased \$12,000 to accommodate a change in the pension plan.
- Cemetery was increased \$20,000 for paving.
- Transfer of \$159,806 to the Sewer Fund to cover the DEQ penalty and construction.
- Transfer of \$10,000 to Local Street Fund for construction.

Capital Asset and Debt Administration

At the end of fiscal year 2004-05, the City had \$5,445 thousand in a broad range of capital assets, including buildings, police equipment and water and sewer lines.

The City has \$ 600 thousand in general obligation bonds remaining to be paid. The City also has governmental activity long-term debt of \$617 thousand in installment purchase agreements, \$14 thousand in capital leases, and \$179 thousand in compensated absences. Debt attributable to business-type activities includes \$1,303 thousand in bonds payable and \$101 thousand in compensated absences.

Economic Factors and Next Year's Budgets and Rates

The City's budget for 2005-06 includes expenditures for park development, arsenic removal from potable water and wastewater treatment plant improvements.

City of Sandusky
Management's Discussion and Analysis
February 28, 2005

Contacting the Government

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information contact the City's Finance Director.

City of Sandusky
Statement of Net Assets
February 28, 2005

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 1,151,491	\$ 181,834	\$ 1,333,325
Investments	334,175	-	334,175
Receivables			
Taxes	1,214,408	-	1,214,408
Customers	26,039	275,821	301,860
Special assessments	-	22,163	22,163
Accrued interest and other	22,744	-	22,744
Due from other units of government	125,484	-	125,484
Internal balances	514,584	(514,584)	-
Prepaid items	-	1,364	1,364
Restricted assets			
Cash and cash equivalents	12,527	222,434	234,961
Capital assets, net	654,667	4,790,746	5,445,413
Total assets	<u>4,056,119</u>	<u>4,979,778</u>	<u>9,035,897</u>
Liabilities			
Accounts payable	32,457	20,062	52,519
Accrued and other liabilities	67,085	29,606	96,691
Due to other units of government	-	7,160	7,160
Noncurrent liabilities			
Due within one year	178,742	65,000	243,742
Due in more than one year	1,410,115	1,339,267	2,749,382
Total liabilities	<u>1,688,399</u>	<u>1,461,095</u>	<u>3,149,494</u>
Net Assets			
Invested in capital assets, net of related debt	475,925	2,997,537	3,473,462
Restricted for:			
Drug forfeiture	2,265	-	2,265
Debt	-	222,434	222,434
Cemetery	61,446	-	61,446
Unrestricted	1,828,084	298,712	2,126,796
Total net assets	<u>\$ 2,367,720</u>	<u>\$ 3,518,683</u>	<u>\$ 5,886,403</u>

See Accompanying Notes to Financial Statements

City of Sandusky
Statement of Activities
For the Year Ended February 28, 2005

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary government							
Governmental activities							
General government	\$ 397,163	\$ 19,358	\$ -	\$ -	\$ (377,805)	\$ -	\$ (377,805)
Public safety	538,586	12,880	4,000	-	(521,706)	-	(521,706)
Public works	802,050	106,052	-	142,509	(553,489)	-	(553,489)
Health and welfare	247,331	-	-	-	(247,331)	-	(247,331)
Community and economic development	39,429	148,541	-	266,796	375,908	-	375,908
Recreation and culture	116,142	38,547	-	-	(77,595)	-	(77,595)
Interest on long-term debt	77,353	-	-	63,420	(13,933)	-	(13,933)
Total governmental activities	2,218,054	325,378	4,000	472,725	(1,415,951)	-	(1,415,951)
Business-type activities							
Sewer	716,778	633,852	-	-	-	(82,926)	(82,926)
Water	448,355	418,045	-	-	-	(30,310)	(30,310)
Total business-type activities	1,165,133	1,051,897	-	-	-	(113,236)	(113,236)
Total primary government	<u>\$ 3,383,187</u>	<u>\$ 1,377,275</u>	<u>\$ 4,000</u>	<u>\$ 472,725</u>	<u>(1,415,951)</u>	<u>(113,236)</u>	<u>(1,529,187)</u>
General revenues							
Property taxes					1,190,294	-	1,190,294
State shared revenue					501,282	-	501,282
Unrestricted investment earnings					51,272	695	51,967
Gain on sale of capital assets					2,307	-	2,307
Miscellaneous					23,537	22,808	46,345
Total general revenues and transfers					1,768,692	23,503	1,792,195
Change in net assets					352,741	(89,733)	263,008
Net assets - beginning of year					2,014,979	3,608,416	5,623,395
Net assets - end of year					<u>\$ 2,367,720</u>	<u>\$ 3,518,683</u>	<u>\$ 5,886,403</u>

See Accompanying Notes to Financial Statements

City of Sandusky
Governmental Funds
Balance Sheet
February 28, 2005

		Special Revenue Funds				
	General	Major Street Fund	Local Street Fund	Senior Citizens Housing	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 565,651	\$ 137,998	\$ 1,753	\$ 208,540	\$ 37,041	\$ 950,983
Investments	168,988	-	-	50,742	114,445	334,175
Receivables						
Taxes	92,812	-	-	-	-	92,812
Customers	24,548	-	-	-	556	25,104
Accrued interest and other	266	-	-	-	-	266
Due from other units of government	90,567	24,681	10,236	-	-	125,484
Due from other funds	1,114,828	-	-	-	-	1,114,828
Advances to other funds	561,131	-	-	-	-	561,131
Total assets	<u>\$ 2,618,791</u>	<u>\$ 162,679</u>	<u>\$ 11,989</u>	<u>\$ 259,282</u>	<u>\$ 152,042</u>	<u>\$ 3,204,783</u>
Liabilities						
Accounts payable	\$ 12,417	\$ 1,729	\$ 2,420	\$ 11,042	\$ 697	\$ 28,305
Accrued and other liabilities	15,464	1,971	1,924	11,218	323	30,900
Deferred revenue	1,200,429	-	-	-	-	1,200,429
Total liabilities	<u>1,228,310</u>	<u>3,700</u>	<u>4,344</u>	<u>22,260</u>	<u>1,020</u>	<u>1,259,634</u>
Fund Balances						
Reserved for:						
Drug forfeiture	2,265	-	-	-	-	2,265
Advance to water and sewer funds	561,131	-	-	-	-	561,131
Perpetual care	-	-	-	-	61,446	61,446
Unreserved						
Designated for:						
Cemetery	26,291	-	-	-	-	26,291
City hall	50,159	-	-	-	-	50,159
Industrial park	30,102	-	-	-	-	30,102
Recreation	65,534	-	-	-	-	65,534
Police	24,849	-	-	-	-	24,849
DPW	264	-	-	-	-	264
Senior citizens building	133,659	-	-	-	-	133,659
Unreserved, reported in:						
General fund	496,227	-	-	-	-	496,227
Special revenue funds	-	158,979	7,645	237,022	33,254	436,900
Permanent fund	-	-	-	-	56,322	56,322
Total fund balances	<u>1,390,481</u>	<u>158,979</u>	<u>7,645</u>	<u>237,022</u>	<u>151,022</u>	<u>1,945,149</u>
Total liabilities and fund balances	<u>\$ 2,618,791</u>	<u>\$ 162,679</u>	<u>\$ 11,989</u>	<u>\$ 259,282</u>	<u>\$ 152,042</u>	<u>\$ 3,204,783</u>

See Accompanying Notes to Financial Statements

City of Sandusky
Governmental Funds
Reconciliation of Fund Balances of Governmental Funds
to Net Assets of Governmental Activities
February 28, 2005

Total fund balances for governmental funds	\$ 1,945,149
Total net assets for governmental activities in the statement of net assets is different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	521,157
Certain receivables are not available to pay for current period expenditures and, therefore are deferred in the funds.	1,200,429
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued interest	(36,000)
Compensated absences	(178,781)
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities.	(1,410,076)
Internal service funds are included as part of governmental activities.	<u>325,842</u>
Net assets of governmental activities	<u>\$ 2,367,720</u>

City of Sandusky
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended February 28, 2005

	Special Revenue Funds					Governmental Funds Total
	General	Major Street Fund	Local Street Fund	Senior Citizens Housing Fund	Other Governmental Funds	
Revenues						
Taxes	\$ 1,151,956	\$ -	\$ -	\$ -	\$ -	\$ 1,151,956
Licenses and permits	3,054	-	-	-	-	3,054
Federal grants	-	-	-	266,796	-	266,796
State revenue sharing	299,172	142,318	59,792	-	-	501,282
Other state grants	-	27,994	-	-	-	27,994
Local contributions	4,000	58,508	56,007	-	-	118,515
Charges for services	146,249	-	-	-	6,460	152,709
Fines and forfeitures	907	-	-	-	-	907
Interest income	28,589	2,734	724	3,562	8,849	44,458
Rental income	13,638	-	-	133,262	7,154	154,054
Other revenue	32,293	5,886	-	-	12	38,191
Total revenues	<u>1,679,858</u>	<u>237,440</u>	<u>116,523</u>	<u>403,620</u>	<u>22,475</u>	<u>2,459,916</u>
Expenditures						
Current						
General government	369,266	-	-	-	-	369,266
Public safety	530,817	-	-	-	-	530,817
Public works	374,698	192,988	198,206	-	37,781	803,673
Health and welfare	-	-	-	247,331	-	247,331
Community and economic development	9,313	-	-	-	-	9,313
Recreation and culture	116,142	-	-	-	-	116,142
Other functions	11,002	-	-	-	-	11,002
Capital outlay	52,742	-	78,657	18,116	12,000	161,515
Debt service						
Principal retirement	55,961	-	-	-	118,783	174,744
Interest and fiscal charges	10,266	-	-	-	69,253	79,519
Total expenditures	<u>1,530,207</u>	<u>192,988</u>	<u>276,863</u>	<u>265,447</u>	<u>237,817</u>	<u>2,503,322</u>
Excess (deficiency) of revenues over expenditures	<u>149,651</u>	<u>44,452</u>	<u>(160,340)</u>	<u>138,173</u>	<u>(215,342)</u>	<u>(43,406)</u>
Other financing sources (uses)						
Transfers in	-	-	112,750	-	233,015	345,765
Transfers out	(148,140)	(32,750)	-	(164,875)	-	(345,765)
Sale of fixed assets	2,307	-	-	-	-	2,307
Total other financing sources and uses	<u>(145,833)</u>	<u>(32,750)</u>	<u>112,750</u>	<u>(164,875)</u>	<u>233,015</u>	<u>2,307</u>
Net change in fund balance	3,818	11,702	(47,590)	(26,702)	17,673	(41,099)
Fund balance - beginning of year	1,386,663	147,277	55,235	263,724	133,349	1,986,248
Fund balance - end of year	<u>\$ 1,390,481</u>	<u>\$ 158,979</u>	<u>\$ 7,645</u>	<u>\$ 237,022</u>	<u>\$ 151,022</u>	<u>\$ 1,945,149</u>

See Accompanying Notes to Financial Statements

City of Sandusky
Governmental Funds
Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended February 28, 2005

Net change in fund balances - Total governmental funds	\$ (41,099)
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Total change in net assets reported for governmental activities in the statement of activities
is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those
assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation expense	(32,592)
Capital outlay	101,965

Revenues in the statement of activities that do not provide current financial resources are not reported as revenue
in the funds.

Property taxes	38,338
Job credits	63,420

Expenses are recorded when incurred in the statement of activities

Accrued interest	4,000
Compensated absences	(10,511)

Bond proceeds are reported as financing sources in the governmental funds and thus contribute to the change in
fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not
affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds
but reduces the liability in the statement of net assets.

Repayments of long-term debt	174,744
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Internal service funds are also included as governmental activities	<u>54,476</u>
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Change in net assets of governmental activities	<u><u>\$ 352,741</u></u>
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See Accompanying Notes to Financial Statements

City of Sandusky
Proprietary Funds
Statement of Net Assets
February 28, 2005

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental Activities Internal Service Funds</u>
	<u>Sewer</u>	<u>Water</u>	<u>Total</u>	
Assets				
Current assets				
Cash and cash equivalents	\$ 40,440	\$ 141,394	\$ 181,834	\$ 200,508
Receivables				
Customers	160,318	115,503	275,821	935
Special assessments, current	-	3,829	3,829	-
Due from other funds	14,709	32,853	47,562	-
Prepaid items	-	1,364	1,364	-
Total current assets	<u>215,467</u>	<u>294,943</u>	<u>510,410</u>	<u>201,443</u>
Noncurrent assets				
Restricted assets				
Cash and cash equivalents	6,194	216,240	222,434	12,527
Special assessments receivable, deferred	-	18,334	18,334	-
Capital assets, net	<u>2,968,483</u>	<u>1,822,263</u>	<u>4,790,746</u>	<u>133,510</u>
Total noncurrent assets	<u>2,974,677</u>	<u>2,056,837</u>	<u>5,031,514</u>	<u>146,037</u>
Total assets	<u>3,190,144</u>	<u>2,351,780</u>	<u>5,541,924</u>	<u>347,480</u>
Liabilities				
Current liabilities				
Accounts payable	10,694	9,368	20,062	4,152
Accrued and other liabilities	4,618	24,988	29,606	185
Due to other funds	-	18,316	18,316	-
Due to other units of government	7,160	-	7,160	-
Current portion of noncurrent liabilities	<u>5,550</u>	<u>59,450</u>	<u>65,000</u>	<u>-</u>
Total current liabilities	<u>28,022</u>	<u>112,122</u>	<u>140,144</u>	<u>4,337</u>

See Accompanying Notes to Financial Statements

City of Sandusky
Proprietary Funds
Statement of Net Assets
February 28, 2005

	<u>Business-type Activities - Enterprise Funds</u>			Governmental Activities Internal Service Funds
	<u>Sewer</u>	<u>Water</u>	<u>Total</u>	
Noncurrent liabilities				
Advances from other funds	\$ 265,137	\$ 295,994	\$ 561,131	\$ -
Long-term debt net of current portion	<u>82,171</u>	<u>1,257,096</u>	<u>1,339,267</u>	<u>-</u>
Total noncurrent liabilities	<u>347,308</u>	<u>1,553,090</u>	<u>1,900,398</u>	<u>-</u>
Total liabilities	<u>375,330</u>	<u>1,665,212</u>	<u>2,040,542</u>	<u>4,337</u>
Net Assets				
Invested in capital assets, net of related debt	2,763,152	234,385	2,997,537	133,510
Restricted for:				
Debt	6,194	216,240	222,434	-
Unrestricted	<u>45,468</u>	<u>235,943</u>	<u>281,411</u>	<u>209,633</u>
Total net assets	<u>\$ 2,814,814</u>	<u>\$ 686,568</u>	3,501,382	<u>\$ 343,143</u>
Some amounts reported for business-type activities in the statement of net assets are different because certain internal service funds assets and liabilities are reported with business-type activities			<u>17,301</u>	
Net assets of business-type activities			<u>\$ 3,518,683</u>	

See Accompanying Notes to Financial Statements

City of Sandusky
Proprietary Funds
Statement of Revenues, Expenses and Changes in Fund Net Assets
For the Year Ended February 28, 2005

	Business-type Activities - Enterprise Funds			Governmental Activities Internal Service Funds
	Sewer	Water	Total	
Operating revenues				
Customer fees	\$ 618,357	\$ 413,994	\$ 1,032,351	\$ -
Billings to other funds	-	-	-	151,860
Other revenue	16,866	19,514	36,380	-
Total operating revenues	635,223	433,508	1,068,731	151,860
Operating expenses				
Personal services	294,902	150,975	445,877	21,490
Supplies	52,486	14,707	67,193	10,276
Contractual services	20,997	27,886	48,883	-
Utilities	71,110	16,248	87,358	-
Repairs and maintenance	68,203	37,480	105,683	26,416
Other expenses	17,241	55,716	72,957	9,618
Depreciation	112,693	54,923	167,616	17,263
Total operating expenses	637,632	357,935	995,567	85,063
Operating income (loss)	(2,409)	75,573	73,164	66,797
Nonoperating revenues (expenses)				
Interest income	746	5,923	6,669	6,814
Loss on disposal of assets	-	(34,625)	(34,625)	-
DEQ penalty	(79,806)	-	(79,806)	-
Interest expense	(743)	(71,693)	(72,436)	(1,834)
Total nonoperating revenues (expenses)	(79,803)	(100,395)	(180,198)	4,980
Change in net assets	(82,212)	(24,822)	(107,034)	71,777
Net assets - beginning of year	2,897,026	711,390	3,608,416	271,366
Net assets - end of year	\$ 2,814,814	\$ 686,568	3,501,382	\$ 343,143
Some amounts reported for business-type activities in the statement of activities are different because the net revenue (expense) of certain internal service funds is reported with business-type activities			17,301	
Change in net assets of business-type activities			\$ 3,518,683	

See Accompanying Notes to Financial Statements

City of Sandusky
Proprietary Funds
Statement of Cash Flows
For the Year Ended February 28, 2005

	Business-type Activities - Enterprise Funds			Governmental Activities Internal Service Funds
	Sewer	Water	Total	Equipment
Cash flows from operating activities				
Receipts from customers	\$ 624,658	\$ 424,126	\$ 1,048,784	\$ -
Receipts from interfund users	-	-	-	151,860
Receipts from other funds	11,854	12,970	24,824	-
Payments to other funds	-	(5,000)	(5,000)	-
Payments to suppliers	(222,903)	(114,021)	(336,924)	(44,367)
Payments to employees	(289,986)	(147,860)	(437,846)	(21,469)
Payments for interfund services used	(3,115)	(36,175)	(39,290)	-
Net cash provided by operating activities	120,508	134,040	254,548	86,024
Cash flows from noncapital financing activities				
DEQ penalty	(79,806)	-	(79,806)	-
Cash flows from capital and related financing activities				
Proceeds from special assessments	-	6,738	6,738	-
Advances from other funds	159,806	-	159,806	-
Purchases/construction of capital assets	(191,325)	-	(191,325)	(20,539)
Principal and interest paid on long-term debt	(21,093)	(136,202)	(157,295)	(40,133)
Net cash used by capital and related financing activities	(52,612)	(129,464)	(182,076)	(60,672)
Cash flows from investing activities				
Purchases of investments	-	5,923	5,923	-
Interest received	746	-	746	6,814
Net cash provided by investing activities	746	5,923	6,669	6,814
Net increase (decrease) in cash and cash equivalents	(11,164)	10,499	(665)	32,166
Cash and cash equivalents - beginning of year	57,798	347,135	404,933	180,869
Cash and cash equivalents - end of year	\$ 46,634	\$ 357,634	\$ 404,268	\$ 213,035

See Accompanying Notes to Financial Statements

City of Sandusky
Proprietary Funds
Statement of Cash Flows
For the Year Ended February 28, 2005

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental Activities Internal Service Funds</u>
	<u>Sewer</u>	<u>Water</u>	<u>Total</u>	<u>Equipment</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities				
Operating income (loss)	\$ (2,409)	\$ 75,573	\$ 73,164	\$ 66,797
Adjustments to reconcile operating income to net cash from operating activities				
Depreciation and amortization expense	112,693	54,923	167,616	17,263
Changes in assets and liabilities				
Receivables (net)	(12,133)	(9,382)	(21,515)	-
Due from other units of government	1,568	-	1,568	-
Due from other funds	11,854	12,970	24,824	-
Prepaid items	-	(1,364)	(1,364)	-
Accounts payable	(3,141)	3,205	64	1,943
Accrued and other liabilities	4,916	3,115	8,031	21
Due to other funds	-	(5,000)	(5,000)	-
Due to other units of government	7,160	-	7,160	-
Net cash provided by operating activities	<u>\$ 120,508</u>	<u>\$ 134,040</u>	<u>\$ 254,548</u>	<u>\$ 86,024</u>

See Accompanying Notes to Financial Statements

City of Sandusky
Fiduciary Funds
Statement of Net Assets
February 28, 2005

	Pension and Other Employee Benefit Trust Funds	Agency Funds
Assets		
Cash and cash equivalents	\$ 75,572	\$ 1,125,264
Investments	<u>64,044</u>	<u>-</u>
Total assets	<u>139,616</u>	<u>\$ 1,125,264</u>
Liabilities		
Due to other funds	22,478	\$ 1,121,596
Due to other units of government	<u>-</u>	<u>3,668</u>
Total liabilities	<u>22,478</u>	<u>\$ 1,125,264</u>
Net Assets		
Held in trust for pension benefits and other purposes	<u>\$ 117,138</u>	

City of Sandusky
Fiduciary Funds
Statement of Changes in Net Assets
For the Year Ended February 28, 2005

	<u>Pension and Other Employee Benefit Trust Funds</u>
Additions	
Contributions	
Employer	\$ 15,454
Investment earnings	
Interest	<u>4,522</u>
Total additions	19,976
Net assets - beginning of year	<u>97,162</u>
Net assets - end of year	<u><u>\$ 117,138</u></u>

See Accompanying Notes to Financial Statements

City of Sandusky
Notes to Financial Statements
February 28, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

City of Sandusky is governed by an elected Mayor, Clerk, Treasurer and six (6) Council members. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable.

A blended component unit is a legally separate entity from the City of Sandusky but is so intertwined with the City that it is, in substance, the same as the City of Sandusky. It is reported as part of the City and blended into the business-type funds.

The Sandusky - Watertown Utilities is governed by a board, with the majority appointed by the City. Although it is legally separate from the City, the Utilities Authority is reported as if it is part of the primary government because its sole purpose is acquire, own, improve, enlarge, extend and operate a sewage disposal system for the City of Sandusky and Watertown Township. The sewage treatment plant is maintained and operated by the City of Sandusky.

Complete financial statements of the individual component units can be obtained from:

Sandusky - Watertown Utilities
26 W. Speaker
Sandusky, Michigan 48471

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. *Government activities*, which normally are

supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

City of Sandusky
Notes to Financial Statements
February 28, 2005

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Although the City's 2004 ad valorem tax is levied and collectible on December 1, 2004, it is the City's policy to recognize revenue from the current tax levy as deferred, since it is budgeted for the fiscal year ending February 28, 2006.

Sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street Fund accounts for maintenance and improvement activities for streets designated as "major" within the

City. Funding is primarily through state shared gas and weight taxes.

The Local Street Fund accounts for maintenance and improvement activities for streets designated as "local" within the City. Funding is primarily through state shared gas and weight taxes.

The Senior Citizens Housing Fund accounts for the operation of the senior citizens housing unit owned by the City.

The government reports the following major enterprise funds:

The Sewer Fund accounts for the activities of the sewage collection system.

The Water Fund accounts for the activities of the water distribution system.

Additionally, the government reports the following:

The Permanent Fund accounts for perpetual cemetery resources and expenditures.

The nonmajor special revenue funds account for the proceeds of specific revenue sources requiring separate accounting because of legal or regulatory provisions or administrative requirements.

The Debt Service Fund accounts for the accumulation of resources for, and payment of governmental activities principal, interest and related costs.

The Internal Service Fund accounts for major machinery and equipment purchases and maintenance provided to other departments of the government on a cost reimbursement basis.

City of Sandusky
Notes to Financial Statements
February 28, 2005

The Pension and Other Employee Benefit Trust Funds account for the activities of employee benefit plans that accumulate resources for pension and other post-employment benefit payments to qualified employees.

The Agency Fund accounts for property tax deposits collected on behalf of other units.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the government Enterprise Fund and the government's Internal Service Funds are charges to customers for sales and services. The government also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for Enterprise Funds and Internal Service Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, liabilities, and net assets or equity

Deposits and investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds.” Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.”

City of Sandusky
Notes to Financial Statements
February 28, 2005

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

The 2004 taxable valuation of the government totaled 61,764,039, on which ad valorem taxes consisted of 19.5 mills for operating purposes. This resulted in \$1,192,982 for operating expenses, exclusive of any Michigan Tax Tribunal or Board of Review adjustments.

Prepaid items – Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted assets – Certain revenue bonds of the Enterprise Funds require amounts to be set aside for a bond reserve. These amounts have been classified as restricted investments.

Capital assets – Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets for land, site improvements, buildings, and building improvements of more than \$10,000 and equipment with an initial individual cost \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost, if purchased or constructed. The City began recording governmental infrastructure constructed on or after July 1, 2003 as allowed by GASB 34.

The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the

government values these capital assets at the estimated fair value of the item at the date of its donation.

Property, plant and equipment are depreciated using the straight-line method over the following useful lives:

Site improvements	
Buildings	25 to 50 years
Building improvements	5 to 25 years
Water and sewer systems	40 years
Vehicles	3 to 10 years
Machinery and equipment	5 to 20 years

Compensated absences – In accordance with contracts negotiated with the various employee groups of the City, individual employees have vested rights upon termination of employment to receive payments for unused sick leave under formulas and conditions specified in the contract. The vacation policy no longer allows for the carryover of unused days. Days accumulated prior to the change in policy were capped and continue to be available. The dollar amount for vested rights has been accrued in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-term obligations – In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

City of Sandusky
Notes to Financial Statements
February 28, 2005

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund balance – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purposes. Designations of fund balance represent tentative management plans that are subject to change.

Comparative data

Comparative data is not included in the City's financial statements.

Accounting and reporting change

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments*. The City of Sandusky has applied the provisions of this statement and related GASB statements in the accompanying financial statements (including the notes to financial statements). The City has elected to implement both the general provisions of the statement and the prospective reporting of the infrastructure in the current year. Certain significant changes in the statement include the following:

- A management's discussion and analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations.

- Financial statements prepared using full accrual accounting for all of the City's activities, including infrastructure (roads, bridges, etc.)
- A change in the fund financial statements to focus on the major funds.
- Capital assets in the governmental activities column of the statement of net assets were not previously reported.
- The governmental activities column includes bonds and other long-term obligations totaling \$1,648,240, previously reported in the General Long-Term Debt Account Group. In addition accrued interest of \$36,000 has been included.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary information

The City is subject to the budgetary control requirements of the Uniform Budgeting Act (P.A. 621 of 1978, as amended). Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal year end.

Prior to February 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following March 1. Public hearings are obtained to obtain taxpayer comments and the budget is legally enacted through passage of an ordinance prior to March 1.

The budget document presents information by fund, activity, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level. After the budget is

City of Sandusky
Notes to Financial Statements
February 28, 2005

adopted, any revisions to revenues or expenditures must be approved by the City Council.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent when goods are received or services rendered.

NOTE 3 - DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91 authorizes the City to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other obligations of the United States, or any agency or instrumentality of the United States. United States government or federal agency obligations; repurchase agreements; bankers acceptance of United States Banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City's retirement system's investments are held in trust by the investment fiduciary. Michigan Compiled Laws, Section 38.1132, authorizes the City retirement system to invest in a wide variety of investments including stocks, bonds, certificates of deposit, real estate, annuity contracts obligations of a specified nature, and real or personal property. Specific limitations apply to the various investment types depending on the size of the system.

The governing body has designated two banks for the deposit of local unit funds. The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank

accounts and certificates of deposit, but not the remainder of State statutory authority as listed above.

	Cash and Cash Equivalents	Investments	Restricted Cash and Cash Equivalents
Governmental activities	\$ 1,151,491	\$ 334,175	\$ 12,527
Business-type activities	<u>181,834</u>	<u>-</u>	<u>222,434</u>
Total primary government	1,333,325	334,175	234,961
Fiduciary funds	<u>1,200,836</u>	<u>64,044</u>	<u>-</u>
Total	<u>\$ 2,534,161</u>	<u>\$ 398,219</u>	<u>\$ 234,961</u>

The breakdown between deposits and investments is as follows:

	Primary Government	Fiduciary Funds
Bank deposits (checking and savings accounts, certificates of deposit)	\$ 1,901,961	\$ 1,226,792
Investments in securities, mutual funds and similar vehicles	-	38,088
Petty cash and cash on hand	<u>500</u>	<u>-</u>
	<u>\$ 1,902,461</u>	<u>\$ 1,264,880</u>

Deposits

The bank balance was \$ 2,571,065 at year end. Of the bank balance, \$ 200,000 was covered by federal depository insurance and 2,371,065 was uninsured and uncollateralized. Since the component unit participates in the government's common cash, the federal depository insurance is not specifically allocated to their balance.

City of Sandusky
Notes to Financial Statements
February 28, 2005

Investments

Investments are classified into three categories to give an indication of the level of risk assumed by the government. Category 1 includes investments that are insured or registered or for which the securities are held by the government or its agency in the government's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agency in the government's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the government's name.

The investments of \$ \$38,088 consist of annuity contracts and mutual funds. They are not evidenced by securities that exist in physical or book entry form, and, accordingly are not categorized.

NOTE 4 - RECEIVABLES AND DEFERRED REVENUE

The only receivables not expected to be collected within one year are special assessments of \$ 18,334 recognized in the sewer fund.

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>
Primary government	
Property taxes	<u>\$ 1,200,429</u>

NOTE 5 - CAPITAL ASSETS

Capital assets activity of the primary government for the current year was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 343,350	\$ -	\$ -	\$ 343,350
Capital assets being depreciated				
Machinery and equipment	434,668	-	-	434,668
Vehicles	295,798	43,848	-	339,646
Total capital assets being depreciated	730,466	122,504	-	852,970
Less accumulated depreciation for				
Machinery and equipment	227,172	18,994	-	246,166
Vehicles	264,626	28,239	-	292,865
Total accumulated depreciation	491,798	49,855	-	541,653
Net capital assets being depreciated	238,668	72,649	-	311,317
Governmental activities capital assets, net	\$ 582,018	\$ 72,649	\$ -	\$ 654,667
Capital assets not being depreciated				
Construction in progress	\$ 34,156	\$ 190,398	\$ -	\$ 224,554
Capital assets being depreciated				
Machinery and equipment	270,398	927	-	271,325
Vehicles	54,026	-	47,758	6,268
Water system	2,315,087	-	-	2,315,087
Sewer system	4,679,143	-	-	4,679,143
Total capital assets being depreciated	7,318,654	927	47,758	7,271,823
Less accumulated depreciation for				
Machinery and equipment	161,667	17,110	-	178,777
Vehicles	18,603	796	13,133	6,266
Water system	438,699	54,127	-	492,826
Sewer system	1,932,179	95,583	-	2,027,762
Total accumulated depreciation	2,551,148	167,616	13,133	2,705,631
Net capital assets being depreciated	4,767,506	(166,689)	34,625	4,566,192
Business-type capital assets, net	\$ 4,801,662	\$ 23,709	\$ 34,625	\$ 4,790,746

City of Sandusky
Notes to Financial Statements
February 28, 2005

Depreciation expense was charged to programs as follows:

Governmental activities

Public safety	\$ 7,769
Public works	24,823

Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets

17,263

Total governmental activities

49,855

Business-type activities

Sewer	112,693
Water	<u>54,923</u>

Total business-type activities

167,616

Total primary government

\$ 217,471

The City has \$ 96,000 of construction commitments for the design and construction administration phase of the wastewater treatment plant improvements outstanding as of February 28, 2005.

NOTE 6 - INTERFUND RECEIVABLES, PAYABLE, AND TRANSFERS

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Due from/to other funds		
General	Agency (Taxes)	\$ 1,108,628
General	Sewer	6,200
Sewer	Employees Sick Pay	15,825
Sewer	Agency (Taxes)	12,968
Water	Employees Sick Pay	6,653
Sewer	Sewer	<u>12,116</u>
		<u><u>\$ 1,162,390</u></u>

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Advances due to/from other funds		
General	Water	\$ 295,994
General	Sewer	<u>265,137</u>
		<u><u>\$ 561,131</u></u>

The "due from/to other funds" outstanding balances between funds result mainly from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made.

The "advances due to/from other funds" are a result of zero interest loans made from the general fund to the water and sewer funds for bond payments and construction. Payment terms have not been established.

The details for interfund transfers are as follows:

<u>Funds Transferred From</u>	<u>Funds Transferred To</u>	<u>Amount</u>
General	Local Street	\$ 80,000
General	Airport	68,140
Major Street	Local Street	32,750
Senior Citizens	Senior Citizens Debt	<u>164,875</u>
		<u><u>\$ 345,765</u></u>

Transfers are used to move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs.

City of Sandusky
Notes to Financial Statements
February 28, 2005

NOTE 7 - LEASES

Capital leases

The City has entered into a capital lease for a police vehicle. The future minimum lease payments are as follows:

<u>Year ending February 28,</u>	
2006	\$ 7,770
2007	<u>7,770</u>
Total minimum lease payments	15,540
Less amount representing interest	<u>1,194</u>
Present value of minimum lease payments	<u><u>\$ 14,346</u></u>
Asset	
Machinery and equipment	\$ 23,309
Less accumulated depreciation	<u>7,769</u>
Total	<u><u>\$ 15,540</u></u>

City of Sandusky
Notes to Financial Statements
February 28, 2005

NOTE 8 - LONG-TERM DEBT

The government issues bonds to provide for the acquisition and construction of major capital projects. General obligation bonds are direct obligations and pledge the full faith and credit of the government. Installment purchase agreements are also general obligations of the government. Other long-term obligations include compensated absences. Compensated absences are typically liquidated with funds from the General, Water and Sewer Funds

Long-term obligation activity is summarized as follows:

	Amount of Issue	Maturity Date	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities									
Bonds and notes payable									
General obligation bonds									
1980 Senior Citizens Housing Projects Bonds	\$ 2,050,000	11/01/05	9.25%	\$100,000 - \$125,000	\$ 700,000	\$ -	\$ 100,000	\$ 600,000	\$ 100,000
Installment purchase agreements									
1999 Tornado Sirens	44,743	04/15/05	3.95%	\$8,205	16,089	-	7,884	8,205	8,205
1999 Runway Rehabilitation Project	40,000	07/14/09	4.50%	\$4,057 - \$4,837	26,076	-	3,883	22,193	4,056
2001 Runway Rehabilitation Project	40,000	06/08/11	4.60%	\$1,659 - \$2,165	14,923	-	1,585	13,338	1,659
2002 Fire Hall Roof	18,683	12/15/06	3.75%	\$3,861 - \$3,995	11,639	-	3,783	7,856	3,861
2003 Vacant Land	225,000	03/04/18	4.55%	\$11,280 - \$20,113	225,000	-	10,763	214,237	11,280
2003 John Deere Tractor	72,855	03/20/07	4.33%	\$13,941 - \$15,175	57,022	-	13,361	43,661	13,941
2004 Michigan Economic Development Corporation	384,152	11/01/13	5.00%	\$7,056 - \$10,765	390,922	-	83,463	307,459	28,759
Total bonds payable					1,441,671	-	224,722	1,216,949	171,761
Capital lease - 2005 Ford Crown Victoria	23,309	10/05/06	5.50%	\$6,981 - \$7,365	-	22,116	7,770	14,346	6,981
Compensated absences					168,270	10,511	-	178,781	
Internal service fund obligations									
Capital lease - 2002 Elgin Pelican Street Sweeper	114,980	2005	4.79%		38,299	-	38,299	-	-
Total governmental activities					\$ 1,648,240	\$ 32,627	\$ 270,791	\$ 1,410,076	\$ 178,742

City of Sandusky
Notes to Financial Statements
February 28, 2005

	Amount of Issue	Maturity Date	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities									
Bonds and notes payable									
General obligation bonds									
Bonds, Series 2000	\$ 650,000	11/01/17	5.00% - 5.80%	\$30,000 - \$50,000	\$ 570,000	\$ -	\$ 30,000	\$ 540,000	\$ 30,000
Bonds, Series 2001	750,000	11/01/21	4.50% - 5.40%	\$20,000 - \$75,000	750,000	-	-	750,000	20,000
Special assessment obligations									
1992 Special Assessment Tax Bonds	45,000	2007	6.00%	\$15,000	45,000	-	15,000	30,000	15,000
Less deferred amounts									
For issuance discounts					(18,151)	1,135	-	(17,016)	-
Total bonds payable					1,346,849	1,135	45,000	1,302,984	65,000
Compensated absences					96,477	4,806	-	101,283	-
Total business-type activities					<u>\$ 1,443,326</u>	<u>\$ 5,941</u>	<u>\$ 45,000</u>	<u>\$ 1,404,267</u>	<u>\$ 65,000</u>

City of Sandusky
Notes to Financial Statements
February 28, 2005

Annual debt service requirements to maturity for the bonds and notes payable are as follows:

Year Ending February 28,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2006	\$ 171,761	\$ 84,211	\$ 65,000	\$ 67,986
2007	191,535	71,650	70,000	64,544
2008	190,516	56,960	60,000	60,950
2009	177,779	42,300	65,000	58,012
2010	180,386	28,134	70,000	54,702
2011-2015	229,627	43,545	395,000	217,735
2016-2020	75,345	8,767	445,000	104,076
2021-2022	-	-	150,000	12,112
	<u>\$ 1,216,949</u>	<u>\$ 335,567</u>	<u>\$ 1,320,000</u>	<u>\$ 640,117</u>

NOTE 9 - RISK MANAGEMENT

The government is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City joined together with other municipalities to form the Michigan Risk Management Authority (MMRMA), a public entity risk pool currently operating as a common risk management and insurance program which charges an annual premium to its members for insurance coverage. The pool is self-sustaining through member premiums and provides reinsurance through commercial companies for claims in excess of \$3 million for each insured event. The MMRMA provides general liability, casualty and fleet coverage to the City.

The City is also a member of the Michigan Municipal League (MML). The City contracts with Meadowbrook Insurance through the MML for its worker's compensation and airport insurance coverage. The City continues to carry commercial insurance for employee health coverage through Blue Cross Blue Shield of Michigan.

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

The City of Sandusky maintains two defined benefit plans. Two former employees still receive benefits from plans administered by Midwest Pension Actuaries (MPA). The MERS administers all current eligible employees and all retired employees not administered by Midwest Pension Actuaries, Inc. As such, the City's financial statements reflects the activity of the pension fund as administered by Midwest Pension Actuaries, Inc. The following is a summary of both defined benefit pension plans.

Plan as Administered by Midwest Pension Actuaries, Inc.

The cost and market value of the pension fund investments administered by MPA at February 28, 2005 are as follows:

	<u>Cost</u>	<u>Market</u>
Scudder Investments	\$ 30,903	\$ 30,903
American Life Annuity	<u>7,185</u>	<u>7,185</u>
Total	<u>\$38,088</u>	<u>\$38,088</u>

Plan as Administered by Michigan Municipal Employees' Retirement System

Plan description – The government participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the government. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 447 N. Canal Rd., Lansing, Michigan 48917.

City of Sandusky
Notes to Financial Statements
February 28, 2005

Funding policy – The obligation to contribute to and maintain the system for these employees was established by negotiation with the government's competitive bargaining units and requires a contribution from the employers of 17.04%, 6.65% and 19.68% percent of gross wages for general employees, patrolmen and DPW and WWTP Union, respectively.

Annual pension costs – For fiscal year ended 2005, the government's annual pension cost of \$ 152,075 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry age normal cost method. Significant actuarial assumptions used include: 1) a 8% investment rate of return; 2) projected salary increases of 4.5% to 8.66% per year; and 3) 2.5% per year cost of living adjustments. Both determined using techniques that smooth the effects of short-term volatility over a four-year period.

The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

Three year trend information as of December 31:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Annual pension cost	\$ 128,268	\$ 110,172	\$ 88,621
Percentage of APC contributed	100%	100%	100%
Actuarial value of assets	914,279	786,029	716,354
Actuarial accrued liabilities	2,623,475	2,449,781	2,159,433
Unfunded AAL	1,709,196	1,663,752	1,443,079
Funded ratio	34.8%	32.1%	33.2%
Covered payroll	896,106	906,229	872,244

NOTE 11 - POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in the preceding note, the City provides a fixed amount in post-retirement health care benefits per month. Contracts identify specific requirements. There are no participants receiving benefits, and accordingly there were no expenditures for the fiscal year.

As permitted by the Michigan Department of Treasury, effective March 1, 2002, the City established an Employee Sick Pay Fund and Employee Health Care Fund. The Employee Sick Pay Fund is used to account for money set-aside for employee's sick pay. The Employee Health Care Fund is for the accumulation and investment of funds to provide for the funding of health care benefits to retired employees and their beneficiaries.

NOTE 12 - CONTINGENT LIABILITIES

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

NOTE 13 - SUBSEQUENT EVENTS

The City is in the process of renovating and expanding the Waste Water Treatment Facility for an estimated cost of \$ 7,462,000. In connection with the project, the City has received approval of grants of \$ 2,122,000 and low interest loans of \$ 5,340,000.

City of Sandusky
Notes to Financial Statements
February 28, 2005

The City has also received approval for a \$1,345,600 loan with interest at 4.5% from Rural Development for arsenic removal from the water tower.

The City Council voted on June 6, 2005 to dissolve the Sandusky-Watertown Utilities Authority Board. The City will continue to operate the waste water treatment facility and provide services to the same users as the past. A new contract between the City of Sandusky and Watertown Township is being negotiated.

NOTE 14 - UPCOMING ACCOUNTING AND REPORTING CHANGE

The Government Accounting Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits other than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care. The new rules will cause the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending February 28, 2010.

City of Sandusky
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
For the Year Ended February 28, 2005

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Taxes				
Property taxes	\$ 1,132,000	\$ 1,132,000	\$ 1,149,990	\$ 17,990
Penalties and interest	1,800	1,800	1,966	166
Licenses and permits	3,000	3,000	3,054	54
State revenue sharing	303,500	303,500	299,172	(4,328)
Local contributions	3,500	3,500	4,000	500
Charges for services	137,500	138,800	146,249	7,449
Fines and forfeitures	600	600	907	307
Interest income	20,500	20,500	28,589	8,089
Rental income	13,675	13,675	13,638	(37)
Other revenue	17,000	17,000	32,293	15,293
Sale of fixed assets	-	-	2,307	2,307
Transfer in	24,500	30,500	-	(30,500)
Total revenues	<u>1,657,575</u>	<u>1,664,875</u>	<u>1,682,165</u>	<u>17,290</u>
Expenditures				
General government				
Township board	16,000	13,300	12,329	(971)
Manager	60,005	60,005	55,122	(4,883)
Clerk	70,145	73,645	72,542	(1,103)
Board of review	1,500	1,500	1,621	121
Treasurer	13,620	13,620	12,979	(641)
Assessor	16,950	16,950	16,202	(748)
Elections	4,500	4,500	2,845	(1,655)
Buildings and grounds	168,440	160,940	160,208	(732)
Cemetery	51,075	38,475	35,418	(3,057)
Total general government	<u>402,235</u>	<u>382,935</u>	<u>369,266</u>	<u>(13,669)</u>

City of Sandusky
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
For the Year Ended February 28, 2005

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Public safety				
Police	\$ 456,347	\$ 454,747	\$ 440,558	\$ (14,189)
Fire department	79,550	70,250	69,348	(902)
Building inspection department	16,500	12,500	12,392	(108)
Civil defense	8,550	8,550	8,519	(31)
Total public safety	<u>560,947</u>	<u>546,047</u>	<u>530,817</u>	<u>(15,230)</u>
Public works				
Department of public works	236,845	234,845	218,911	(15,934)
Sidewalks	3,500	600	644	44
Street lighting	65,000	67,500	67,498	(2)
Sanitary land fill	87,700	87,700	87,645	(55)
Total public works	<u>393,045</u>	<u>390,645</u>	<u>374,698</u>	<u>(15,947)</u>
Community and economic development				
Planning	1,600	9,100	8,975	(125)
Zoning	1,100	1,100	338	(762)
Total community and economic development	<u>2,700</u>	<u>10,200</u>	<u>9,313</u>	<u>(887)</u>
Recreation and culture				
Parks and recreation	<u>137,132</u>	<u>137,132</u>	<u>116,142</u>	<u>(20,990)</u>

City of Sandusky
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
For the Year Ended February 28, 2005

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Other functions				
Unallocated employee fringe benefits	\$ -	\$ -	\$ 11,002	\$ 11,002
Capital outlay	-	60,200	52,742	(7,458)
Debt service				
Principal retirement	57,600	57,600	55,961	(1,639)
Interest and fiscal charges	10,300	10,300	10,266	(34)
Total debt service	67,900	67,900	66,227	(1,673)
Transfers out	138,140	307,946	148,140	(159,806)
Total expenditures	1,702,099	1,903,005	1,678,347	(224,658)
Excess (deficiency) of revenues over expenditures	(44,524)	(238,130)	3,818	241,948
Fund balance - beginning of year	1,386,663	1,386,663	1,386,663	-
Fund balance - end of year	<u>\$ 1,342,139</u>	<u>\$ 1,148,533</u>	<u>\$ 1,390,481</u>	<u>\$ 241,948</u>

City of Sandusky
Required Supplemental Information
Budgetary Comparison Schedule
Major Street Fund
For the Year Ended February 28, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
State revenue sharing	\$ 115,000	\$ 132,000	\$ 142,318	\$ 10,318
Other state grants	22,000	27,900	27,994	94
Local contributions	56,000	58,500	58,508	8
Interest income	1,000	2,500	2,734	234
Other revenue	5,600	5,600	5,886	286
Total revenues	<u>199,600</u>	<u>226,500</u>	<u>237,440</u>	<u>10,940</u>
Expenditures				
Current				
Public works	199,600	210,455	192,988	(17,467)
Transfers out	<u>32,750</u>	<u>32,750</u>	<u>32,750</u>	<u>-</u>
Total expenditures	<u>232,350</u>	<u>243,205</u>	<u>225,738</u>	<u>(17,467)</u>
Excess (deficiency) of revenues over expenditures	(32,750)	(16,705)	11,702	28,407
Fund balance - beginning of year	<u>147,277</u>	<u>147,277</u>	<u>147,277</u>	<u>-</u>
Fund balance - end of year	<u>\$ 114,527</u>	<u>\$ 130,572</u>	<u>\$ 158,979</u>	<u>\$ 28,407</u>

City of Sandusky
Required Supplemental Information
Budgetary Comparison Schedule
Local Street Fund
For the Year Ended February 28, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	Actual Over (Under) Final Budget
	<u>Original</u>	<u>Final</u>		
Revenues				
State revenue sharing	\$ 54,000	\$ 55,900	\$ 59,792	\$ 3,892
Local contributions	56,000	56,000	56,007	7
Interest income	1,000	1,000	724	(276)
Transfers in	<u>98,750</u>	<u>112,750</u>	<u>112,750</u>	<u>-</u>
Total revenues	<u>209,750</u>	<u>225,650</u>	<u>229,273</u>	<u>3,623</u>
Expenditures				
Current				
Public works	169,100	201,260	198,206	(3,054)
Capital outlay	<u>40,650</u>	<u>78,660</u>	<u>78,657</u>	<u>(3)</u>
Total expenditures	<u>209,750</u>	<u>279,920</u>	<u>276,863</u>	<u>(3,057)</u>
Excess (deficiency) of revenues over expenditures	-	(54,270)	(47,590)	6,680
Fund balance - beginning of year	<u>55,235</u>	<u>55,235</u>	<u>55,235</u>	<u>-</u>
Fund balance - end of year	<u>\$ 55,235</u>	<u>\$ 965</u>	<u>\$ 7,645</u>	<u>\$ 6,680</u>

City of Sandusky
Required Supplemental Information
Budgetary Comparison Schedule
Senior Citizens Housing
For the Year Ended February 28, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Federal grants	\$ 265,000	\$ 265,000	\$ 266,796	\$ 1,796
Interest income	4,500	4,500	3,562	(938)
Rental income	129,700	129,700	133,262	3,562
Transfers in	20,000	20,000	-	(20,000)
Total revenues	<u>419,200</u>	<u>419,200</u>	<u>403,620</u>	<u>(15,580)</u>
Expenditures				
Current				
Health and welfare	243,688	243,688	247,331	3,643
Capital outlay	37,292	37,292	18,116	(19,176)
Transfers out	165,000	165,000	164,875	(125)
Total expenditures	<u>445,980</u>	<u>445,980</u>	<u>430,322</u>	<u>(15,658)</u>
Excess (deficiency) of revenues over expenditures	(26,780)	(26,780)	(26,702)	78
Fund balance - beginning of year	<u>263,724</u>	<u>263,724</u>	<u>263,724</u>	<u>-</u>
Fund balance - end of year	<u>\$ 236,944</u>	<u>\$ 236,944</u>	<u>\$ 237,022</u>	<u>\$ 78</u>

City of Sandusky
Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
February 28, 2005

	Special Revenue Fund <u>Airport</u>	Permanent Fund <u>Cemetery</u>	Total Nonmajor Governmental Funds <u>Funds</u>
Assets			
Cash and cash equivalents	\$ 33,718	\$ 3,323	\$ 37,041
Investments	-	114,445	114,445
Receivables			
Customers	<u>556</u>	<u>-</u>	<u>556</u>
Total assets	<u>\$ 34,274</u>	<u>\$ 117,768</u>	<u>\$ 152,042</u>
Liabilities			
Accounts payable	\$ 697	\$ -	\$ 697
Accrued and other liabilities	<u>323</u>	<u>-</u>	<u>323</u>
Total liabilities	<u>1,020</u>	<u>-</u>	<u>1,020</u>
Fund Balances			
Reserved for:			
Perpetual care	-	61,446	61,446
Undesignated	<u>33,254</u>	<u>56,322</u>	<u>89,576</u>
Total fund balances	<u>33,254</u>	<u>117,768</u>	<u>151,022</u>
Total liabilities and fund balances	<u>\$ 34,274</u>	<u>\$ 117,768</u>	<u>\$ 152,042</u>

City of Sandusky
Other Supplemental Information
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended February 28, 2005

	Special Revenue Fund	Debt Service Fund	Permanent Fund	Total Nonmajor Governmental Funds
	Airport	1980 G.O. Senior Citizens Housing Project	Cemetery	
Revenues				
Charges for services	\$ 6,460	\$ -	\$ -	\$ 6,460
Interest income	567	-	8,282	8,849
Rental income	7,154	-	-	7,154
Other revenue	12	-	-	12
Total revenues	14,193	-	8,282	22,475
Expenditures				
Current				
Public works	37,781	-	-	37,781
Capital outlay	12,000	-	-	12,000
Principal retirement	18,783	100,000	-	118,783
Interest and fiscal charges	4,378	64,875	-	69,253
Total expenditures	72,942	164,875	-	237,817
Excess (deficiency) of revenues over expenditures	(58,749)	(164,875)	8,282	(215,342)
Other financing sources (uses)				
Transfers in	68,140	164,875	-	233,015
Transfers out	-	-	-	-
Total other financing sources and (uses)	68,140	164,875	-	233,015
Net change in fund balance	9,391	-	8,282	17,673
Fund balance - beginning of year	23,863	-	109,486	133,349
Fund balance - end of year	\$ 33,254	\$ -	\$ 117,768	\$ 151,022

City of Sandusky
Other Supplemental Information
Combining Balance Sheet
Water Fund
February 28, 2005

	Water	1992 Bond Issue	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 75,370	\$ 66,024	\$ 141,394
Receivables			
Customers	115,503	-	115,503
Special assessments, current	-	3,829	3,829
Due from other funds	6,978	25,875	32,853
Prepaid items	1,364	-	1,364
Total current assets	<u>199,215</u>	<u>95,728</u>	<u>294,943</u>
Noncurrent assets			
Restricted assets			
Cash and cash equivalents	216,240	-	216,240
Special assessments receivable, deferred	-	18,334	18,334
Capital assets, net	<u>1,570,893</u>	<u>251,370</u>	<u>1,822,263</u>
Total noncurrent assets	<u>1,787,133</u>	<u>269,704</u>	<u>2,056,837</u>
Total assets	<u>1,986,348</u>	<u>365,432</u>	<u>2,351,780</u>
Liabilities			
Current liabilities			
Accounts payable	9,368	-	9,368
Accrued and other liabilities	24,388	600	24,988
Due to other funds	18,316	-	18,316
Current portion of noncurrent liabilities	<u>50,000</u>	<u>9,450</u>	<u>59,450</u>
Total current liabilities	<u>102,072</u>	<u>10,050</u>	<u>112,122</u>
Noncurrent liabilities			
Advances from other funds	-	295,994	295,994
Long-term debt net of current portion	<u>1,247,646</u>	<u>9,450</u>	<u>1,257,096</u>
Total noncurrent liabilities	<u>1,247,646</u>	<u>305,444</u>	<u>1,553,090</u>
Total liabilities	<u>1,349,718</u>	<u>315,494</u>	<u>1,665,212</u>
Net Assets			
Invested in capital assets, net of related debt	297,909	(63,524)	234,385
Restricted for:			
Debt service	216,240	-	216,240
Unrestricted	<u>122,481</u>	<u>113,462</u>	<u>235,943</u>
Total net assets	<u>\$ 636,630</u>	<u>\$ 49,938</u>	<u>\$ 686,568</u>

City of Sandusky
Other Supplemental Information
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
Water Fund
For the Year Ended February 28, 2005

	Water	1992 Bond Issue	Total
Operating revenues			
Customer fees	\$ 413,994	\$ -	\$ 413,994
Other revenue	19,514	-	19,514
Total operating revenues	<u>433,508</u>	<u>-</u>	<u>433,508</u>
Operating expenses			
Personal services	150,975	-	150,975
Supplies	14,707	-	14,707
Contractual services	27,886	-	27,886
Utilities	16,248	-	16,248
Repairs and maintenance	37,480	-	37,480
Other expenses	55,463	253	55,716
Depreciation	48,308	6,615	54,923
Total operating expenses	<u>351,067</u>	<u>6,868</u>	<u>357,935</u>
Operating income (loss)	<u>82,441</u>	<u>(6,868)</u>	<u>75,573</u>
Nonoperating revenues (expenses)			
Interest income	4,051	1,872	5,923
Loss on disposal of assets	(34,625)	-	(34,625)
Interest expense	(69,501)	(2,192)	(71,693)
Total nonoperating revenues (expenses)	<u>(100,075)</u>	<u>(320)</u>	<u>(100,395)</u>
Loss before contributions and transfers out	<u>(17,634)</u>	<u>(7,188)</u>	<u>(24,822)</u>
Transfers in	-	37,431	37,431
Transfers out	(37,431)	-	(37,431)
Change in net assets	<u>(55,065)</u>	<u>30,243</u>	<u>(24,822)</u>
Net assets - beginning of year	<u>691,695</u>	<u>19,695</u>	<u>711,390</u>
Net assets - end of year	<u>\$ 636,630</u>	<u>\$ 49,938</u>	<u>\$ 686,568</u>

City of Sandusky
Other Supplemental Information
Combining Balance Sheet
Pension and Other Employee Benefit Trust Funds
February 28, 2005

	<u>Retirement System</u>	<u>Employees Sick Pay</u>	<u>Employees Health Care</u>	<u>Total</u>
Assets				
Current assets				
Cash and cash equivalents	\$ -	\$ 58,621	\$ 16,951	\$ 75,572
Investments	<u>38,088</u>	<u>15,573</u>	<u>10,383</u>	<u>64,044</u>
Total assets	<u>38,088</u>	<u>74,194</u>	<u>27,334</u>	<u>139,616</u>
Liabilities				
Current liabilities				
Due to other funds	<u>-</u>	<u>22,478</u>	<u>-</u>	<u>22,478</u>
Net Assets				
Unrestricted	<u>\$ 38,088</u>	<u>\$ 51,716</u>	<u>\$ 27,334</u>	<u>\$ 117,138</u>

City of Sandusky
Other Supplemental Information
Pension and Other Employee Benefit Trust Funds
Combining Statement of Changes in Net Assets
For the Year Ended February 28, 2005

	<u>Retirement System</u>	<u>Employees Sick Pay</u>	<u>Employees Health Care</u>	<u>Total</u>
Additions				
Contributions Employer	\$ -	\$ 15,454	\$ -	\$ 15,454
Investment earnings				
Interest	<u>3,375</u>	<u>831</u>	<u>316</u>	<u>4,522</u>
Total additions	<u>3,375</u>	<u>16,285</u>	<u>316</u>	<u>19,976</u>
Change in net assets	3,375	16,285	316	19,976
Net assets - beginning of year	<u>34,713</u>	<u>35,431</u>	<u>27,018</u>	<u>97,162</u>
Net assets - end of year	<u>\$ 38,088</u>	<u>\$ 51,716</u>	<u>\$ 27,334</u>	<u>\$ 117,138</u>

City of Sandusky
Other Supplemental Information
Schedule of Indebtedness
February 28, 2005

Description	Interest Rate	Date of Maturity	Amount of Annual Maturity	Interest	Interest	Total
Governmental Activities	9.250%	11/01/05	\$ 100,000	\$ 27,750	\$ 27,750	\$ 155,500
1980 General Obligation Senior Citizens	9.250%	11/01/06	125,000	23,125	23,125	171,250
Housing Project Bonds	9.250%	11/01/07	125,000	17,344	17,344	159,688
Amount of issue - \$ 2,050,000	9.250%	11/01/08	125,000	11,562	11,562	148,124
	9.250%	11/01/09	125,000	5,781	5,781	136,562
			<u>\$ 600,000</u>	<u>\$ 85,562</u>	<u>\$ 85,562</u>	<u>\$ 771,124</u>
 1999 Installment Loan - Tornado sirens						
Amount of issue - \$ 44,743	3.950%	04/15/05	<u>\$ 8,205</u>	<u>\$ 324</u>	<u>\$ -</u>	<u>\$ 8,529</u>
 1999 Installment Loan - Runway	4.500%	07/14/05	\$ 4,056	\$ 999	\$ -	\$ 5,055
Rehabilitation Project	4.500%	07/14/06	4,239	816	-	5,055
Amount of issue - \$ 40,000	4.500%	07/14/07	4,430	625	-	5,055
	4.500%	07/14/08	4,629	426	-	5,055
	4.500%	07/14/09	4,839	218	-	5,057
			<u>\$ 22,193</u>	<u>\$ 3,084</u>	<u>\$ -</u>	<u>\$ 25,277</u>
 2001 Installment Loan - Runway	4.600%	06/08/05	\$ 1,659	\$ 614	\$ -	\$ 2,273
Rehabilitation Project	4.600%	06/08/06	1,736	537	-	2,273
Amount of issue - \$ 17,898	4.600%	06/08/07	1,816	457	-	2,273
	4.600%	06/08/08	1,898	375	-	2,273
	4.600%	06/08/09	1,986	287	-	2,273
	4.600%	06/08/10	2,078	195	-	2,273
	4.600%	06/08/11	2,165	100	-	2,265
			<u>\$ 13,338</u>	<u>\$ 2,565</u>	<u>\$ -</u>	<u>\$ 15,903</u>
 2002 Installment Loan - Fire Hall Roof	3.750%	12/15/05	\$ 3,861	\$ 295	\$ -	\$ 4,156
Amount of issue - \$ 18,683	3.750%	12/15/06	3,995	150	-	4,145
			<u>\$ 7,856</u>	<u>\$ 445</u>	<u>\$ -</u>	<u>\$ 8,301</u>

City of Sandusky
Other Supplemental Information
Schedule of Indebtedness
February 28, 2005

Description	Interest Rate	Date of Maturity	Amount of Annual Maturity	Interest	Interest	Total
2003 Installment Loan - Vacant Land	4.550%	03/04/05	\$ 11,280	\$ 9,748	\$ -	\$ 21,028
Amount of issue - \$ 225,000	4.550%	03/04/06	11,794	9,235	-	21,029
	4.550%	03/04/07	12,330	8,698	-	21,028
	4.550%	03/04/08	12,869	8,159	-	21,028
	4.550%	03/04/09	13,477	7,551	-	21,028
	4.550%	03/04/10	14,090	6,938	-	21,028
	4.550%	03/04/11	14,731	6,297	-	21,028
	4.550%	03/04/12	15,386	5,642	-	21,028
	4.550%	03/04/13	16,101	4,927	-	21,028
	4.550%	03/04/14	16,834	4,194	-	21,028
	4.550%	03/04/15	17,600	3,428	-	21,028
	4.550%	03/04/16	18,394	2,634	-	21,028
	4.550%	03/04/17	19,238	1,790	-	21,028
	4.550%	03/04/18	20,113	915	-	21,028
			<u>\$ 214,237</u>	<u>\$ 80,156</u>	<u>\$ -</u>	<u>\$ 294,393</u>
2003 Installment Loan - John Deere Tractor	4.330%	03/20/05	\$ 13,941	\$ 1,892	\$ -	\$ 15,833
Amount of issue - \$ 72,855	4.330%	03/20/06	14,545	1,288	-	15,833
	4.330%	03/20/07	15,175	658	-	15,833
			<u>\$ 43,661</u>	<u>\$ 3,838</u>	<u>\$ -</u>	<u>\$ 47,499</u>

City of Sandusky
Other Supplemental Information
Schedule of Indebtedness
February 28, 2005

Description	Interest Rate	Date of Maturity	Amount of Annual Maturity	Interest	Interest	Total
2004 Michigan Economic Development Corporation						
Amount of issue - \$ 384,152	5.000%	05/01/05	\$ 7,056	\$ 3,843	\$ -	\$ 10,899
	5.000%	08/01/05	7,145	3,755	-	10,900
	5.000%	11/01/05	7,234	3,666	-	10,900
	5.000%	02/01/06	7,324	3,575	-	10,899
	5.000%	05/01/06	7,416	3,484	-	10,900
	5.000%	08/01/06	7,509	3,391	-	10,900
	5.000%	11/01/06	7,603	3,297	-	10,900
	5.000%	02/01/07	7,698	3,202	-	10,900
	5.000%	05/01/07	7,794	3,106	-	10,900
	5.000%	08/01/07	7,891	3,008	-	10,899
	5.000%	11/01/07	7,990	2,910	-	10,900
	5.000%	02/01/08	8,090	2,810	-	10,900
	5.000%	05/01/08	8,191	2,709	-	10,900
	5.000%	08/01/08	8,293	2,606	-	10,899
	5.000%	11/01/08	8,397	2,503	-	10,900
	5.000%	02/01/09	8,502	2,398	-	10,900
	5.000%	05/01/09	8,608	2,292	-	10,900
	5.000%	08/01/09	8,716	2,184	-	10,900
	5.000%	11/01/09	8,825	2,075	-	10,900
	5.000%	02/01/10	8,935	1,965	-	10,900
	5.000%	05/01/10	9,047	1,853	-	10,900
	5.000%	08/01/10	9,160	1,740	-	10,900
	5.000%	11/01/10	9,274	1,624	-	10,898
	5.000%	02/01/11	9,390	1,510	-	10,900
	5.000%	05/01/11	9,508	1,392	-	10,900
	5.000%	08/01/11	9,626	1,273	-	10,899
	5.000%	11/01/11	9,747	1,153	-	10,900
	5.000%	02/01/12	9,869	1,031	-	10,900
	5.000%	05/01/12	9,992	908	-	10,900
	5.000%	08/01/12	10,117	783	-	10,900
	5.000%	11/01/12	10,243	656	-	10,899
	5.000%	02/01/13	10,371	528	-	10,899
	5.000%	05/01/13	10,501	399	-	10,900
	5.000%	08/01/13	10,632	267	-	10,899
	5.000%	11/01/13	10,765	135	-	10,900
			<u>\$ 307,459</u>	<u>\$ 74,031</u>	<u>\$ -</u>	<u>\$ 381,490</u>

City of Sandusky
Other Supplemental Information
Schedule of Indebtedness
February 28, 2005

Description	Interest Rate	Date of Maturity	Amount of Annual Maturity	Interest	Interest	Total
Business-type Activities						
Water Supply System Revenue	5.000%	11/01/05	\$ 30,000	\$ 13,975	\$ 14,725	\$ 58,700
Bonds, Series 2000	5.100%	11/01/06	35,000	13,083	13,975	62,058
Amount of issue - \$ 650,000	5.150%	11/01/07	35,000	12,181	13,083	60,264
	5.200%	11/01/08	35,000	11,271	12,181	58,452
	5.250%	11/01/09	40,000	10,221	11,271	61,492
	5.300%	11/01/10	40,000	9,161	10,221	59,382
	5.400%	11/01/11	40,000	8,081	9,161	57,242
	5.500%	11/01/12	45,000	6,844	8,081	59,925
	5.600%	11/01/13	45,000	5,584	6,844	57,428
	5.650%	11/01/14	45,000	4,312	5,584	54,896
	5.700%	11/01/15	50,000	2,888	4,312	57,200
	5.750%	11/01/16	50,000	1,450	2,888	54,338
	5.800%	11/01/17	50,000	-	1,450	51,450
			<u>\$ 540,000</u>	<u>\$ 99,051</u>	<u>\$ 113,776</u>	<u>\$ 752,827</u>
Water Supply System Revenue	4.500%	11/01/05	\$ 20,000	\$ 18,743	\$ 18,743	\$ 57,486
Bonds, Series 2001	4.500%	11/01/06	20,000	18,293	18,293	56,586
Amount of issue - \$ 750,000	4.500%	11/01/07	25,000	17,843	17,843	60,686
	4.500%	11/01/08	30,000	17,280	17,280	64,560
	4.500%	11/01/09	30,000	16,605	16,605	63,210
	4.500%	11/01/10	30,000	15,930	15,930	61,860
	4.600%	11/01/11	35,000	15,255	15,255	65,510
	4.700%	11/01/12	35,000	14,450	14,450	63,900
	4.800%	11/01/13	40,000	13,628	13,628	67,256
	4.900%	11/01/14	40,000	12,668	12,668	65,336
	5.000%	11/01/15	45,000	11,688	11,688	68,376
	5.100%	11/01/16	50,000	10,562	10,562	71,124
	5.200%	11/01/17	50,000	9,287	9,287	68,574
	5.250%	11/01/18	75,000	7,988	7,988	90,976
	5.300%	11/01/19	75,000	6,019	6,019	87,038
	5.350%	11/01/20	75,000	4,031	4,031	83,062
	5.400%	11/01/21	75,000	2,025	2,025	79,050
			<u>\$ 750,000</u>	<u>\$ 212,295</u>	<u>\$ 212,295</u>	<u>\$ 1,174,590</u>
1992 Special Assessment Limited Tax Bonds	6.000%	11/01/05	\$ 15,000	\$ 900	\$ 900	\$ 16,800
Amount of issue - \$ 185,000	6.000%	11/01/06	15,000	450	450	15,900
			<u>\$ 30,000</u>	<u>\$ 1,350</u>	<u>\$ 1,350</u>	<u>\$ 32,700</u>



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August 15, 2005

Members of the City Council
City of Sandusky
Sandusky, Michigan

In planning and performing our audit of the financial statements of the City of Sandusky for the year ended February 28, 2005, we considered the City's internal control system to determine our auditing procedures for the purposes of expressing an opinion on the financial statements and not to provide assurance on the internal controls.

However, during our audit, we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The following summarizes our comments regarding those matters. This letter does not affect our report dated April 7, 2005, on the financial statements of the City of Sandusky.

Check Signing Procedures

During our audit, we noted that the Treasurer's signature stamp is held by an individual that also signs checks. We were informed that the stamp was used only when a second signature was required and appropriate check signers were not available. We recommend that the stamp be eliminated or a policy be developed that restricts access and usage of the signature stamp.

Status of Prior Year Comments


We have reviewed the status of comments and recommendations made in the prior year. The status of prior year comments is as follows:

Members of the City Council
City of Sandusky
Sandusky, Michigan

<u>Comment</u>	<u>Implemented/ Situation Corrected</u>	<u>Progress Made</u>	<u>Situation Still Exists</u>
Finance director should receive, review and approve monthly report of adjustments made to utility billing accounts.	X		
The clerk and the deputy clerk should reconcile the disbursement checking and the payroll checking accounts to the balance on the general ledger on a monthly basis.	X		
A monthly reconciliation should be completed between the senior citizens housing director and the finance director to make sure that the recognition of cash and revenue are being handled properly.	X		
The list of ACH transactions given to the Council should be provided along with disbursements.	X		
We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with City personnel. We will be pleased to discuss these items in further detail at your convenience, to perform any additional study of these matters or to assist you in implementing the recommendations.			

Very truly yours,

YEO & YEO, P.C.
CPAs and Business Consultants



Mari McKenzie